

Economist.com

PRINT EDITION

SPECIAL REPORT

The future of Europe

A club in need of a new vision

Apr 29th 2004

From The Economist print edition



If the European Union is to thrive after swelling to 25 members, it needs to rediscover its inspiration

MAY DAY is traditionally a workers' holiday. But this year it also marks what should be the biggest day in the 50-year story of the European project. Ten new countries, mostly ex-communist ones from central Europe, are joining the European Union. For them, May 1st used to mean forced jollity and endless military parades. This year, they will be guests of honour at a jamboree attended by all the European heads of government in Dublin (since Ireland holds the rotating EU presidency). What began as the European Coal and Steel Community in 1951, with just six countries—Germany, France, Italy, the Netherlands, Belgium and Luxembourg—will now be an EU of 25 countries, stretching from Portugal to Poland.

As numbers of members go, this is the biggest expansion that the European Union or its predecessors has ever seen. The first came in 1973, when Britain, Denmark and Ireland joined the original six countries in what was by then called the European Economic Community (EEC). In 1981, Greece came in; five years later, in 1986, Spain and Portugal followed. And in 1995 Sweden, Austria and Finland entered what had become known as the EU.

Yet what really matters about the latest enlargement is not its size; in both population and GDP terms, the 1973 enlargement was proportionately a lot bigger (see table). Rather it is, first, that the EU is taking in some former communist countries, including three that were part of the former Soviet Union (German re-unification in 1990 is the closest previous parallel); and, second, that those countries are much poorer than the existing members.

Growing pains?

Enlargement date	Countries joining	Population % addition	GDP (PPP) % addition	GDP per head, entrants as % of existing average
1973	Britain, Denmark, Ireland	33.4	31.9	95.5
1981	Greece	3.7	1.8	48.4
1986	Portugal, Spain	17.8	11.0	62.2
1995	Austria, Finland, Sweden	6.3	6.5	103.6
2004*	Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, Slovenia	19.6	9.1	46.5

Sources: EIU; Eurostat; IMF; OECD *2003 data

Average GDP per head in the ten new member countries is only 46% of the EU15 average. And although one new member country, Slovenia, is actually richer than the poorest present member, Greece, the poorest new country, Latvia, has a GDP per head of only 36% of the EU15 average. According to estimates by the Economist Intelligence Unit, our sister organisation, even on the rosier forecasts it will take Poland, say, 59 years to catch up with the EU average of GDP per head. Gaps as big as this dwarf those in previous enlargements, causing headaches in Brussels.

Yet for all the anxiety, this moment is a triumph for the European project. It marks the coming-together of a continent forced apart for 45 years by the Iron Curtain. It is also testimony to the allure of the EU. In nine of the ten countries, membership was approved by referendums, in most cases by huge majorities. And waiting eagerly in the wings are other prospective members. Romania and Bulgaria hope to join in 2007, though realistically it may be later. Croatia will soon be invited to begin talks. Macedonia has recently applied, and other Balkan countries are limbering up. Biggest of all, Turkey hopes later this year to win a date for the start of accession negotiations. Not many clubs can boast of so many eager applicants lining up outside their doors.

Despite this, the mood across the EU is hardly one of elation; it is more of gloom. In part, this is because European voters everywhere are feeling grumpy. Spanish and Greek voters have kicked out their governments this year. The German and French governments have not been alone in suffering humiliating setbacks in local polls. Hitherto popular British and Italian leaders have lost much of their previous glow. And so on.

Slow economic growth is the biggest reason for the voters' sour mood. Over the past five years, growth in Germany, France and Italy has averaged only 1.6%. Unemployment remains high: 9.3% in Germany, 9.4% in France, 11.2% in Spain. Opinion polls consistently show that voters are most worried about jobs, in both the EU15 and the ten new members. The relatively better performance over the same period of the United States is sometimes exaggerated; and some countries in the EU, such as Britain, Finland and Ireland, have done well. But many Europeans believe that they are being left behind.

The European Union as an institution is currently going through a period of quite exceptional unpopularity. Earlier this year, a Eurobarometer poll showed that support for the EU in member countries has fallen sharply to under 50%, well below the levels of over 70% in the early 1990s. Even previous Euro-enthusiasts seem to have been infected. Last November the French and German governments tore up the euro's stability-and-growth-pact rules for fiscal policy with indecent glee. In almost all EU member countries, the tendency to rail against anything that emanates from Brussels is on the rise. Even in such Europhile places as Italy and the Netherlands, hostility to the EU is becoming more overt—and more respectable.

Far from generating more love for the EU in existing member countries, this weekend's enlargement may be aggravating the bad mood. For a long time, ordinary voters were simply unaware that it was happening. As they have woken up to it, however, two big concerns have hit home. One is money: countries that pay heavily into the EU, such as Germany and the Netherlands, fret that they will now have to give more, while those that have been net beneficiaries, such as Spain or Portugal, fear that their cash is going to be siphoned off eastwards.

The second, even more sensitive, issue is migration. Across the EU, the enlargement story that has played most in the newspapers this year has been about the threat of being swamped by immigrants from central and eastern Europe, who will either steal workers' jobs or leech taxpayer-financed benefits (or, confusingly, do both). Already, cities such as London swarm with east European cleaners and builders. It is a sign of the bleak mood about enlargement that most existing members have been quick to take advantage of transitional rules that

allowed them to erect temporary barriers to the free movement of people from the ten new countries—even though, in the long run, most countries in western Europe need more immigrants, not fewer.

The atmosphere of constant bickering that seems to surround the EU does not help. Whether over the budget, the reform of the common agricultural policy or the EU's much-vaunted common foreign policy, discussion in Brussels is characterised more often by bitter dispute than by harmony. The draft EU constitution that is now back on the agenda has exacerbated divisions. Big countries differ with small ones over voting weights and the size of the European Commission. Mostly northern payers-in to the budget fight against mostly southern takers-out. The Franco-German duo that has habitually set the direction for Europe is widely resented, and the notion of adding Britain to form a trilateral group is little more popular (save in Britain). And in foreign policy the “new” and “old” camps in Europe, identified by the American defence secretary, Donald Rumsfeld, during the run-up to the Iraq war, remain easy to spot.

The malaise is quickly spreading to the ten new countries themselves. Despite their eagerness to get into the club, some already show signs of disillusion. Many are proving politically unstable, with coalition governments repeatedly forming and falling, and populist and nationalist parties gaining ground. Last year Poland emerged as the biggest obstacle to the new EU constitution. Last week the famously Eurosceptic Czech president, Vaclav Klaus, gloomily declared that, once in the EU, his country would cease to exist as independent and sovereign.

The Greek-Cypriots' high-handed vote on April 24th to reject the UN plan to unify the island caps it all. Not only does it mean that the EU will now acquire, in the Republic of Cyprus (ie, the Greek-Cypriot half), a new member that imports a disputed border patrolled by UN troops. The republic's government is also joining in a mood of sullen hostility to the EU, which heaped criticism on it for sabotaging the UN plan and which is now keen to do as much as it can to assist the Turkish-Cypriots.

Maybe this discontent with the European Union does not matter. A club that has lasted half a century is surely in no danger of disintegrating. Yet in many ways the EU looks unusually fragile just now. Enlargement from 15 to 25 makes for great uncertainty over how the Union will function. The institutions, especially the European Commission (in effect, the EU's executive), the European Council (the main legislative arm, representing national governments) and the European Parliament (the other legislative arm), are ill-prepared for an influx of so many countries, people and, not least, languages.

The EU's agenda is also quite full. Fraught negotiations on the draft constitution lie ahead, followed in several countries by tricky referendums to approve it (the most difficult of which will most probably be the one promised for Britain by Tony Blair a week ago). Two other highly contentious issues then loom: a decision on whether to open membership negotiations with Turkey, and agreement on the next six-year budget programme.

The combination of a Europe-wide malaise about the EU with such matters of controversy could prove explosive. The British decision to put the new constitution to the vote raises the distinct chance that it will never be ratified. The prospect of Turkish membership, however far off, fills many present members with foreboding. And a budget wrangle with 25 countries could be even more vexatious than previous rows about money. In short, Europeans badly need to take stock and remind themselves what their project is for.

Dreams of the past

It was all much simpler in the early years. In the 1950s and 1960s, the European project stood above all for Franco-German reconciliation. It also represented an economic boom. The end of wartime controls, the gradual abolition of internal tariffs and the shift of labour out of farming and into industry allowed the EEC to outgrow most of the world, including not only European countries outside the club but also the United States. In foreign-policy terms, the EEC fitted into a cold-war framework as a bulwark against the Soviet block, despite the refusal of the French National Assembly to ratify the European Defence Community in 1954, and despite Charles de Gaulle's decision 12 years later to take France out of the military side of NATO.

It was little wonder that Britain and other European countries aspired to join, even though 1973, when Britain eventually did so, marked the start of the first big slowdown in the post-war European economy. The awkward period of British “renegotiation” of the country's entry terms, followed a few years later by Margaret Thatcher's remark, “I want my

money back," brought new setbacks for the European project. But the admission of Greece, Spain and Portugal helped to entrench democracy along Europe's southern rim. And the launch under the commission presidency of Jacques Delors of the 1992 single-market programme helped to restore a new dynamism to the club.

The collapse of communism in central and eastern Europe presented new challenges, but also opportunities. Moves towards a single European currency, passport-free travel, co-operation on justice and home affairs, and a common foreign and security policy were all kicked off by the Maastricht treaty of 1992. This was followed by the start of membership negotiations with the central and eastern European countries themselves.

By comparison with these grand projects, the past half-decade or so has seemed subdued. The actual launch of the single currency in 1999 and the end of the enlargement negotiations in 2002 merely completed work that had been set in hand many years earlier. The popular notion that the European Union is like a bicycle, which must go forward if it is not to fall over, is rather overdone. But it seems plausible to believe that one reason for today's disillusion with the Union is that it no longer has inspiring ambitions.



Towards economic revival

What should the EU do to reinvigorate itself? The most pressing problem is undoubtedly the economy. Four years ago, in Lisbon, European leaders set out the grand-sounding goal of making the EU "the world's most competitive economy" by 2010. But successive reviews of the "Lisbon agenda" have shown depressingly little progress towards that goal. A survey released this week by the World Economic Forum showed once again that most EU members are still a long way from catching up with America.

There are two big reasons for this failure. The first is that, whereas the 1992 single-market programme was largely about removing remaining barriers to trade, Lisbon is mostly about more subtle obstacles, often invoked to protect consumers, in such areas as finance. The bigger difficulty with the Lisbon goals, however, is that they are being blocked at the national, not the European, level. It is national labour and product markets that need liberalisation, just as it is national welfare and pension systems that need reform. The three biggest euro-area economies, Germany, France and Italy, all pay lip-service to the need for change. France is about to unveil plans for reforms in health-care finance. Italy is considering a package of tax cuts. At the end of last year Germany squeaked through most of its so-called Agenda 2010 reforms to pensions, welfare benefits and labour markets.

Yet in all three countries the reforms have been far too modest. And even these have run into stiff resistance from voters. There seems little appetite for taking on the trade unions and other vested interests that are deeply opposed to change. The macroeconomic climate is not helping. Thanks in part to the European Central Bank's tight monetary policy, in part to the fiscal-policy restrictions of the stability pact and in part to their own failure to implement reforms, the biggest European economies have grown only sluggishly in recent years. It is a vicious circle: slow growth means high unemployment, which makes reforms politically harder, which leads to slower growth.

The ten new member countries could be very helpful on this matter. Not only are they growing faster than the existing members, thereby giving the European economy a fillip; after the experience of central planning, they are also, on the whole, more liberal economically. They may not always oppose state intervention, or favour such things as agricultural reform; many still have big state sectors, and there are more farmers in Poland alone than in the whole existing Union. As a new pamphlet from the Centre for European Reform, a think-tank, puts it, the new countries will be in different constellations, sometimes pushing liberal change, sometimes opposing it. There is a risk, too, that EU membership could tilt them towards more regulation. But their general direction is in favour of low taxes, smaller welfare systems and more competition than in many of the existing member states.

In economics, then, EU member countries need to show more ambition. In foreign policy, by contrast, they should probably have less. The grand idea of a common European foreign and security policy set up, in some

minds, partly in rivalry to the United States was not just ahead of its time, as Iraq showed; it was also wrongheaded. The EU needs a common voice, but instead of grandstanding on Iraq or the Middle East, where its influence will always be small, it would do better to focus on what has always been its most successful foreign policy: expanding the club. That now means, above all, finding a way to take in Turkey.

Turkey's eligibility was conceded at the Copenhagen summit 17 months ago. In theory, it is just a matter of fulfilling the criteria needed to begin formal negotiations—which the government of Recep Tayyip Erdogan is working hard to do. That the Turkish-Cypriots voted yes in last weekend's referendum on the UN plan has made it politically very hard for the EU to refuse to open talks. And yet public opinion in many existing countries remains deeply hostile to Turkish membership.

That European smile

Admitting Turkey to the club might not (yet) be part of ordinary Europeans' vision for the EU. But it could become so if it is seen as part of a broader mission to give the expanded EU a new ambition on the global stage. This is to be a beacon and a model: not just of a successful economy, but of a liberal, tolerant, multicultural society. The main target audience lies to the east and south-east of the expanded EU, in Ukraine, Belarus, the western Balkans, the Caucasus and, above all, Russia.

Here the arrival of the ten new member countries could help to give the EU a new role. Their injection of economic dynamism will itself increase the EU's attractiveness as a model. But they also have both more experience of, and more interest in, the former communist and ex-Soviet countries. On April 27th, after long debate, the EU and Russia extended their existing economic and political agreement to the ten new members of the Union. But what might really make a difference would be to get Russia and others, even in the Arab world, to observe an enlarged EU that was rediscovering its earlier successes.

At present, many prefer to see America as a principal model (and rival), because they see in the EU an image of sclerosis and discontent. How much better it would be if they regarded a successful Union as another model (and, as competition is good, another rival). An expanded and revitalised EU that spreads the liberal message around the world would be a fine vision to adopt as this week's celebrations start.